

REPORT OF THE AUDIT OF THE  
CALLOWAY COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES

April 24, 2006

**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**CALLOWAY COUNTY**  
**SHERIFF'S SETTLEMENT - 2005 TAXES**

**April 24, 2006**

The audit firm of Martin, Colson, Hale, & Henderson CPAs has completed the audit of the Sheriff's Settlement - 2005 Taxes for Calloway County Sheriff as of April 24, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$9,705,947 for the districts for 2005 taxes, retaining commissions of \$364,099 to operate the Sheriff's office. The Sheriff distributed taxes of \$9,332,701 to the districts for 2005 taxes. Taxes of \$12 are due to the districts from the Sheriff and refunds of \$395 are due to the Sheriff from the taxing districts.

**Report Comment:**

- The Sheriff's Office Lacks Adequate Segregation of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.

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To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Larry Elkins, Calloway County Judge/Executive  
Honorable Larry Roberts, Calloway County Sheriff  
Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the Calloway County Sheriff's Settlement - 2005 Taxes as of April 24, 2006. This tax settlement is the responsibility of the Calloway County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Calloway County Sheriff's taxes charged, credited, and paid as of April 24, 2006, in conformity with the modified cash basis of accounting.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Larry Elkins, Calloway County Judge/Executive  
Honorable Larry Roberts, Calloway County Sheriff  
Members of the Calloway County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation of Duties

Respectfully submitted,

*Martin, Colson, Hale, & Henderson*

Martin, Colson, Hale, & Henderson CPA's

Audit fieldwork completed -  
October 24, 2006

CALLOWAY COUNTY  
LARRY ROBERTS, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES

April 24, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$1,464,221	\$1,715,131	\$3,428,274	\$1,534,495
Tangible Personal Property	159,827	193,858	294,158	434,898
Intangible Personal Property				117,477
Inventory in Transit		96,926		
Fire Protection	982			
Increase Through Exonerations	80	103	165	150
Franchise Corporation	103,224	134,588	226,131	
Additional Billings	2,013	2,607	4,139	2,559
Limestone, Sand, and Mineral Reserves	55	76	176	58
Bank Franchises	81,194			
Penalties	8,035	9,891	20,066	8,585
Gross Chargeable To Sheriff	<u>\$1,819,631</u>	<u>\$2,153,180</u>	<u>\$3,973,109</u>	<u>\$2,098,222</u>
<u>Credits</u>				
Exonerations	\$ 5,503	\$6,945	\$13,649	\$7,867
Discounts	25,045	31,087	56,208	33,120
Delinquents:				
Real Estate	24,561	30,823	65,240	25,711
Tangible Personal Property	963	1,137	1,390	3,776
Uncollected Franchise	971	1,469	2,730	0
Total Credits	<u>\$ 57,043</u>	<u>\$ 71,461</u>	<u>\$ 139,217</u>	<u>\$ 70,474</u>
Taxes Collected	\$1,762,588	\$2,081,719	\$3,833,892	\$2,027,748
Less: Commissions *	<u>75,166</u>	<u>87,447</u>	<u>115,017</u>	<u>86,469</u>
Taxes Due	\$1,687,422	\$1,994,272	\$3,718,875	\$1,941,279
Taxes Paid	1,685,661	1,991,944	3,715,793	1,939,303
Refunds (Current and Prior Year)	<u>1,822</u>	<u>2,382</u>	<u>3,280</u>	<u>2,046</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Field Work	<u>\$ ( 61)</u>	<u>\$ ( 54)</u>	<u>\$ ( 198)</u>	<u>\$ ( 70)</u>

\*\*

\* and \*\* See Following Page

The accompanying notes are an integral part of this financial statement.

CALLOWAY COUNTY  
 SHERIFF'S SETTLEMENT - 2005 TAXES  
 April 24, 2006  
 (Continued)

\* Commissions:  
     10.00% on \$ 10,000  
     1.00% on \$ 946  
     4.25% on \$ 5,451,576  
     3.00% on \$ 3,833,892  
     4.00% on \$ 409,533

\*\* Special Tax Districts:  
     Library District \$ ( 18)  
     Health District ( 16)  
     Extension District ( 10)  
     Soil Conservation District ( 3)  
     Fire District 12  
     Floodplain 0  
     Jail ( 19)  
     Due Districts \$ ( 54)

The accompanying notes are an integral part of this financial statement.

CALLOWAY COUNTY  
NOTES TO FINANCIAL STATEMENT

April 24, 2006

**Note 1. Summary of Significant Accounting Policies**

**A. Fund Accounting**

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

**B. Basis of Accounting**

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

**C. Cash and Investments**

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**Note 2. Deposits**

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 24, 2006 all deposits were covered by FDIC insurance or a properly executed collateral security agreement.



CALLOWAY COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 24, 2006  
(Continued)

**Note 3. Tax Collection Period**

**A. Property Taxes**

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2005 through April 24, 2006.

**B. Limestone, Sand, and Gravel Reserves Taxes**

The limestone, sand, and gravel reserves tax assessments were levied as of January 1, 2005. Limestone, sand and gravel reserves taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2005 through April 24, 2006.

**Note 4. Interest Income**

The Calloway County Sheriff earned \$ 6,144 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

**Note 5. Sheriff's 10% Add-On Fee**

The Calloway County Sheriff collected \$ 36,935 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of April 24, 2006, the Sheriff owed \$ 647 in add-on fees to his fee account.

**Note 6. Advertising Costs And Fees**

The Calloway County Sheriff collected \$ 1,641 of advertising costs and \$ 7,558 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

**Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed**

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.090, property is presumed abandoned after three years, after which time it is turned over to the Kentucky State Treasurer, in accordance with KRS 393.110. For the prior year's taxes, the Sheriff had \$4,347 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

**COMMENT AND RECOMMENDATION**

CALLOWAY COUNTY  
LARRY ROBERTS, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of April 24, 2006

**Internal Control – Reportable Condition and Material Weakness**

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare the daily bank deposit to the daily collection report and then compare the daily checkout sheet to the receipts ledger and daily checkout sheet. Any differences should be reconciled. The Sheriff could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the monthly tax reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: None*

PRIOR YEAR:

In the prior year, the Sheriff failed to provide adequate segregation of duties. This has not been corrected and has been commented on again this year.

In the prior year the Sheriff did not adequately monitor the pledge of securities being held by the depository institution that held the Sheriff's deposits. This has been corrected by increasing the collateral to a sufficient level.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE  
FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

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Members of the Calloway County Fiscal Court

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the Calloway County Sheriff's Settlement - 2005 taxes as of April 24, 2006, and have issued our report thereon dated October 24, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Calloway County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However we consider the reportable condition described above to be a material weakness.

REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Calloway County Sheriff's Settlement - 2005 Taxes as of April 24, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

*Martin, Colson, Hale & Henderson*

Martin, Colson, Hale, & Henderson CPAs  
October 24, 2006